Unreal Property: Vernor v. Autodesk, Inc. and the Rapid Expansion of Copyright Owners' Rights by Granting Broad Deference to Software License Agreements

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UNREAL PROPERTY: VERNOR V. AUTODESK, INC. AND THE RAPID EXPANSION OF COPYRIGHT OWNERS’ RIGHTS BY GRANTING BROAD DEFERENCE TO SOFTWARE LICENSE AGREEMENTS

Introduction

In a mountain cave near Malmö, Sweden, over 4,000 miles from Washington, D.C., an array of computer servers broadcast a website called thepiratebay.org. This website allows users to search a seemingly limitless library of various media: everything from full versions of popular and expensive software to films, television episodes, and music. Digital pirates all over the world can download the files that they find through the website and copy them onto their computers’ hard drives. They rely not on terror or intimidation—like the traditional pirates of the high seas—but instead on an Internet connection. Nearly half of all software pirating in the United States takes place in only six states, but online piracy occurs in all parts of the country and all over the world. In 2009, approximately forty percent of software programs installed on personal computers around the world were pirated. This is the equivalent of $51 billion in lost revenue for the global software industry, a two percent increase from 2008. The software pirated in the United States alone is valued at $8.4 billion. However, these numbers represent a mere fraction of the true cost of online piracy as films, television episodes, and music are also copied.

7. Id.
en masse over the Internet. Modern piracy on the information superhighway is much more economically dangerous than piracy on the high seas because it happens extremely rapidly, on a very large scale, and virtually anonymously.

Today, many producers of intellectual property are exposed to economic harm caused by piracy. With the advent of broadband internet connections, digital pirates are able to obtain pirated materials faster and more easily than they previously could using older dial-up connections. In order to protect companies from such exposure, courts have expanded the rights of copyright owners while contracting the rights of the owners of physical copies of copyrighted works; namely, consumers. This has not developed organically, but rather as a result of significant investment in lobbying groups by producers of intellectual property. These lobbying groups work tirelessly to promote the interests of intellectual property producers, pushing the development of copyright law towards the goal of absolute control of intellectual property by the copyright owner. These organizations, representing the intellectual property industry, won a significant victory with the U.S. Court of Appeals for the Ninth Circuit's decision in Vernor v. Autodesk, Inc.

Vernor arose when Timothy Vernor was prohibited from reselling a copy of a computer program on eBay called AutoCAD. Autodesk, Inc., the software company that developed AutoCAD, petitioned eBay to remove Vernor's auctions, eventually resulting in the shutdown of Vernor's eBay account. In response, Vernor filed a declaratory judgment action seeking a judicial determination that he was legally permitted to resell a copy of the AutoCAD software. Vernor initially prevailed in the district court but the decision was later overruled by the Ninth Circuit, which promulgated a three-part test for

8. Id.
9. See infra notes 101–14 and accompanying text.
12. See Vernor v. Autodesk, Inc., 621 F.3d 1102 (9th Cir. 2010).
13. Id. at 1105.
14. Id. at 1105–06.
15. Id. at 1106.
determining ownership of copies of copyrighted works.\textsuperscript{16} This Note discusses the inherent problems of abiding by such a rigid test and argues that the approaches of other jurisdictions are preferable to the Ninth Circuit's.

Part II of this Note addresses the background and development of copyright law leading up to \textit{Vernor}, focusing on the Ninth Circuit's approach to the issue of ownership of copies of copyrighted works.\textsuperscript{17} Once that foundation has been laid, Part III then discusses \textit{Vernor} in detail.\textsuperscript{18} Part IV examines other courts' approaches to the question of ownership.\textsuperscript{19} Specifically, it discusses the approaches of the U.S. Courts of Appeals for the Second and Federal Circuits, and the District Court of Utah—which sits within the Tenth Circuit—and argues that the Second and Federal Circuits' approaches are preferable to that of the Ninth Circuit and the District of Utah. Part V of this Note discusses the likely impact that \textit{Vernor} will have on the software industry and other forms of intellectual property.\textsuperscript{20} It identifies three categories of effects: the contraction of the rights of consumers; the potential expansion of the \textit{Vernor} rule to forms of intellectual property other than computer software; and the potential consumer backlash that would likely occur as a result.

\section{II. Background}

\textit{Vernor} is an important case because it narrowed the scope of two significant defenses to copyright infringement: the first-sale doctrine and the essential-step defense. While the implications of the \textit{Vernor} decision may be unsettling, its perceived necessity becomes understandable when balanced against the ever-expanding storm cloud of piracy. The primary issue in \textit{Vernor} was whether a possessor of a copy of a copyrighted work is an owner of that copy or if that possessor has only a license to use that copy.\textsuperscript{21} In \textit{Vernor}, the Ninth Circuit developed a rule that makes it easy for a computer-software copyright owner to restrict ownership of the copies of their copyrighted work.\textsuperscript{22} The copyright owner can simply attach a software license agreement to a product limiting the possessor's rights to that of a licensee instead

\begin{itemize}
  \item \textsuperscript{16} \textit{Id.} at 1106, 1110–11, 1115.
  \item \textsuperscript{17} See infra notes 21–72 and accompanying text.
  \item \textsuperscript{18} See infra notes 73–114 and accompanying text.
  \item \textsuperscript{19} See infra notes 115–63 and accompanying text.
  \item \textsuperscript{20} See infra notes 164–202 and accompanying text.
  \item \textsuperscript{21} \textit{Vernor}, 621 F.3d at 1107.
  \item \textsuperscript{22} See \textit{id.} at 1111 (“We hold today that a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes notable use restrictions.”).
\end{itemize}
of an owner. However, Vernor did not arise out of a vacuum; rather, it is the end result of a lengthy history of courts contracting the rights of consumers of intellectual property. Thus, before one can understand how the Vernor decision changed the concept of ownership in the context of copyright law, one must first examine copyright law generally.

A. Copyright Owners' Rights and Their Limitations

Copyright owners are entitled to certain enumerated rights pursuant to the Copyright Act, including the exclusive rights "to reproduce the copyrighted work in copies" and "to distribute [those] copies . . . under sale or other transfer of ownership." However, those rights have been narrowed since they were originally contemplated in the Copyright Act of 1790. The exclusive right to distribute the copyrighted work is terminated after the first sale under the aptly named "first-sale doctrine." The copyright owner's exclusive right to reproduce his copyrighted work is likewise narrowed in the context of computer software by the essential-step defense.

1. The First-Sale Doctrine

The narrowing of a copyright owner's exclusive right to distribute her copyrighted work began in the early twentieth century with Bobbs-Merrill Co. v. Straus, in which the U.S. Supreme Court held that a copyright owner's exclusive right to distribute terminates after the first sale. In Bobbs-Merrill, a book publisher sought injunctive relief against Isidor and Nathan Straus for selling copies of a book it published. Bobbs-Merrill Company, the publisher, inserted a notice in a book declaring that "[t]he price of this book at retail is one dollar net. No dealer is licensed to sell it at a less price . . . ." The Strauses purchased their entire inventory of the books directly from Bobbs-Merrill. They purchased ninety percent of the inventory wholesale at a forty percent discount from the retail price and purchased the rest at the full retail price. The Strauses then sold the books for eighty-

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24. Id. § 106(1).
25. Id. § 106(3).
26. See infra notes 28-39 and accompanying text.
27. See infra notes 40-49 and accompanying text.
29. Id. at 341.
30. Id.
31. Id. at 341–42.
32. Id.
nine cents each. The Court held that the Strauses were within their rights to sell their copies of the book even though doing so was inconsistent with the notice inserted in the books and despite the copyright owned by Bobbs-Merrill. The Court reasoned that to hold otherwise would be an overextension of the copyright owner's exclusive right to distribute. Specifically, the Court stated:

To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment.

This limitation on the copyright owner's exclusive right to distribute her copyrighted work, commonly known as the first-sale doctrine, was eventually codified as part of the Copyright Act. The Act provides that "the owner of a particular copy [of a copyrighted work] . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." In 1998, the Supreme Court narrowed the scope of the first-sale doctrine in Quality King Distributors, Inc. v. L'anza Research International, Inc. by determining that, because the statutory text only applies to "owners" of a copy of a copyrighted work (or someone authorized by that owner), "the first sale doctrine would not provide a defense . . . [for] any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful." Thus, the Court drew a distinction between a mere licensee of a copyrighted work and an actual owner of a copy of the copyrighted work, prohibiting the former from reselling the copy while permitting the latter to do the same.

2. The Essential-Step Defense

A copyright owner's exclusive right to reproduce his copyrighted work likewise is not absolute. The Copyright Act defines copies as "material objects . . . in which a work is fixed by any method . . . and from which the work can be perceived, reproduced, or otherwise communicated." This definition becomes particularly problematic in the
context of digital software. In order to function properly, a computer must make a copy of the digital information that constitutes any given program or media file. Therefore, if enforced literally, the Copyright Act would proscribe the installation of all computer-software programs. In order to protect users of lawfully purchased software programs from exposure to copyright liability, Congress included the essential-step defense as part of the Computer Software Copyright Act in 1980. The essential-step defense permits "the owner of a copy of a computer program to make ... another copy ... of that computer program provided ... that such a new copy ... is created as an essential step in the utilization of the computer program." Like the first-sale doctrine, the essential-step defense only serves as a proper defense for the owners of copies of copyrighted material.

For some types of software, specifically operating systems, copying the information to random access memory (RAM) occurs immediately after the computer is turned on, and as a result, it is impossible to use the computer without making a copy of the digital information that constitutes the operating system. This very issue arose in the U.S. Court of Appeals for the Ninth Circuit in MAI Systems Corp. v. Peak Computer, Inc. There, a computer manufacturer, MAI Systems, sought damages for copyright infringement against a third-party computer-repair company, Peak Computer, for performing maintenance on computers owned by the manufacturer's customers. The court held that "the loading of software into the RAM creates a copy under the Copyright Act." Furthermore, agreeing with the district court, the Ninth Circuit held that "[i]n the absence of ownership of the copyright or express permission by license, such acts constitute copyright infringement." MAI's license agreement only permitted its customers to copy the software onto a computer's RAM; when Peak serviced their customer's computers, they went beyond the scope of that li-

41. See MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 517-18 (9th Cir. 1993) (noting that a computer, in order to process and view digital materials, must make a copy of the digital information from the computer's hard drive to the computer's RAM).
42. 17 U.S.C. § 117(a).
43. Id.
44. An operating system is the software on a computer that coordinates the use and access of all other software and information stored on that computer. A computer cannot function without some sort of operating-system software. Popular examples of operating systems include Windows XP, Windows Vista, Windows 7, Mac OSX, and less commonly, Linux/Unix. See generally Desktop PC Buying Guide, NEWEGG.COM, http://www.newegg.com/Product/Category IntelligenceArticle.aspx?articleId=197 (last visited Jan. 29, 2012).
45. MAI Sys. Corp., 991 F.2d at 513.
46. Id. at 519.
47. Id. at 518.
license because Peak, as a third party, was not licensed by MAI to make the copy. Further, because a license is nontransferable, MAI's customers could not authorize Peak to service their own computers. MAI Systems is an early example of the Ninth Circuit's tendency to grant broad deference to the software license agreements attached to software by its developers.

B. Copyright Infringement Versus Breach of Contract

Software license agreements are attached to almost all modern software sold in the United States. These agreements are not typically negotiated, but rather included as boilerplate attached to the product, and a refusal to accept the terms of the agreement will prohibit the user from operating the software. In such a situation, a question inevitably arises regarding whether a violation of a software license agreement is a breach of contract or if it is instead a copyright infringement. The Ninth Circuit has determined that "generally, a copyright owner who grants a nonexclusive license to use his copyrighted material waives his right to sue the licensee for copyright infringement" and can sue only for breach of contract. As a result, the Ninth Circuit has promulgated a two-part test for determining when a cause of action for copyright infringement is proper in place of a cause of action for breach of contract. First, the licensee must act beyond the terms of a license that is limited in scope. Second, the licensor must demonstrate that the limitations of the agreement that were allegedly exceeded are "limitations on the scope of the license rather than independent contractual covenants." The first prong of

48. Id. at 517.
49. Id.
50. Any individual who has had even minimal exposure to computer software is familiar with the obligatory license agreements one must accept before using the same.
52. Sun Microsystems, Inc. v. Microsoft Corp., 188 F.3d 1115, 1121 (9th Cir. 1999) (quoting Graham v. James, 144 F.3d 229, 236 (2d Cir. 1998)). The distinction between a cause of action for breach of contract and a cause of action for copyright infringement is significant insofar as the damages that the plaintiff is able to recover are dramatically different. MDY Indus., 2008 WL 2757357, at *3 n.4 ("Breach of contract damages generally are limited to the value of the actual loss caused by the breach. Copyright damages, by contrast, include the copyright owner's actual damages and any additional profits of the infringer, or statutory damages as high as $150,000 per infringed work." (citation omitted)).
53. See Sun Microsystems, 188 F.3d at 1121-22.
54. Id. at 1121.
55. Id. at 1122 ("In other words, before [the licensor] can gain the benefits of copyright enforcement, it must definitively establish that the rights it claims were violated are copyright, not contractual, rights.").
this test is not difficult for software developers to satisfy. In *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, for example, the U.S. District Court for the District of Arizona relied heavily on the simple fact that the software license agreement attached to Blizzard Entertainment’s product was titled “Grant of Limited Use License.”\(^{56}\) For purposes of fulfilling the second prong, the court relied heavily on the language of the agreement itself to determine which terms were limitations on the scope of the license and which terms were contractual covenants.\(^{57}\)

### C. Software License Agreements as Contracts of Adhesion

Software license agreements can be characterized as contracts of adhesion that, while unsavory, are nevertheless enforceable.\(^{58}\) Contracts of adhesion are “form contracts offered on a take-or-leave basis by a party with stronger bargaining power to a party with weaker power.”\(^{59}\) The general rule is “that courts will enforce the terms of a contract as written,” but “courts traditionally have reviewed with heightened scrutiny the terms of contracts of adhesion.”\(^{60}\) Courts are willing to make exceptions to the general acceptance of the contract as written in situations where the terms are unreasonable.\(^{61}\) However, the test for determining the unreasonableness of a contract of adhesion “is not simple, nor can it be mechanically applied.”\(^{62}\) Rather, “the primary concern must be with the terms of the contract considered in light of the circumstances existing when the contract was made.”\(^{63}\) In other words, the determination of whether a contract of adhesion is enforceable is based on a largely contextual test that grants wide discretion to a court in determining what is “reasonable” under the circumstances.

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56. See *MDY Indus.*, 2008 WL 2757357, at *4. The District of Arizona was also persuaded by the fact that the license agreement refers to itself as a “limited, non-exclusive license” and that all use of the product is subject to the software license agreement. *Id.*
57. See *id.* at *5–6.
59. *Id.* at 600 (Stevens, J., dissenting).
60. *Id.*
62. *Id.* at 450.
63. *Id.*
D. The Ninth Circuit’s Influence on the Development of Intellectual Property Law

It is in the above-described environment of software license agreements as related to copyright law that the Ninth Circuit decided Vernor v. Autodesk, Inc. Before discussing the specifics of Vernor, it should be noted that the Ninth Circuit is an extremely influential jurisdiction in the development of intellectual property law, particularly that relating to the digital-software industry. This is the result of the confluence of two factors. First, the Ninth Circuit is the single largest appellate jurisdiction in the country and comprises approximately twenty percent of the nation’s population. By comparison, the next most populous appellate jurisdiction is the Eleventh Circuit, with a population roughly half the size of the Ninth Circuit. Second, states within the Ninth Circuit, particularly California and Washington, are home to a vast array of American software and technology companies.

In a 2006 study, William K. Ford conducted a study of intellectual property casebooks and judicial decisions. He found that the Second Circuit was traditionally the most influential circuit court in terms of copyright and intellectual property law, “consistently publish[ing] at least 31.3% of the copyright opinions from the 1890s through the 1970s, more than any other circuit by wide margins.” However, by the 1980s, the Ninth Circuit overtook the Second Circuit in terms of volume of opinions. “While the Second Circuit moved back into the lead in the 1990s, . . . [f]rom 2000 to 2004, the Ninth Circuit again overtook the Second Circuit, with the Second Circuit’s share dropping below 20% for the first time.” Considering the Ninth Circuit’s vast population as well as the number of technology companies based

64. Vernor v. Autodesk, Inc., 621 F.3d 1102 (9th Cir. 2010).
66. The Eleventh Circuit is comprised of Alabama, Florida, and Georgia.
67. Washington is home to many technology companies, the largest being Microsoft. California is home to even more, including Adobe Systems, Apple, and Google.
69. Id. at 41.
70. Id.
71. Id.
within its jurisdiction, this trend shows little sign of reversing anytime soon.\(^72\)

III. **Subject Opinion: Vernor v. Autodesk, Inc.**

A. **Factual Background and Procedural History**

*Vernor* arose out of a dispute between Timothy Vernor and Autodesk, Inc., a software developer based in California.\(^73\) Autodesk developed a program called AutoCAD, a popular drafting program commonly used by engineers and architects.\(^74\) One of Autodesk's customers, Caldwell/Thomas & Associates, Inc. (CTA), used a version of the AutoCAD program, Release 14, in its business.\(^75\) CTA then upgraded to a newer version of AutoCAD, AutoCAD 2000.\(^76\) Because CTA had already purchased Release 14, Autodesk offered a reduced price for the AutoCAD 2000 licenses.\(^77\) The software license agreement outlining the terms of use for AutoCAD 2000 required licensees to destroy previous versions of the software upon upgrading.\(^78\) However, instead of destroying its copies of Release 14, CTA sold them to Vernor at an office sale, attaching to the packaging handwritten notes containing the activation codes required to install and use the software.\(^79\) Once in possession of the secondhand copies of Release 14, Vernor attempted to sell them on eBay.\(^80\) Vernor never opened the packaging or installed the software.\(^81\) Consequently, Vernor never agreed to the attached software license agreement.\(^82\)

Vernor derived substantial income from selling goods on eBay.\(^83\) Over the course of his eBay career, he sold over 10,000 items.\(^84\) Prior to purchasing the four copies of Release 14 from CTA, Vernor had actually purchased a separate copy of the same version of Release 14

\(^72\) See id.
\(^73\) Vernor v. Autodesk, Inc., 621 F.3d 1102, 1103 (9th Cir. 2010).
\(^74\) Id.
\(^75\) Id. at 1105.
\(^76\) Id.
\(^77\) A new license for AutoCAD 2000 would have cost CTA $3,750. Id. However, because CTA was upgrading from a previous version, each license for the upgraded AutoCAD 2000 cost only $495. Id.
\(^78\) Autodesk even retained a right to be furnished with proof of the destruction of the previous versions upon request. Id.
\(^79\) Vernor, 621 F.3d at 1105.
\(^80\) Id.
\(^81\) Id.
\(^82\) Id.
\(^83\) Id.
\(^84\) Id.
from an unspecified seller at a garage sale in May of 2005. When he attempted to sell this copy on eBay, Autodesk filed a “take-down notice” pursuant to the Digital Millennium Copyright Act (DMCA). This notice prompted eBay to remove the allegedly infringing sale from its website. However, Vernor filed a “counter-notification” with eBay, contesting the validity of Autodesk’s copyright infringement claim. Autodesk never replied to the counter-notification, and as a result, eBay reinstated Vernor’s auction, permitting him to sell the copy of AutoCAD. About two years later, in April 2007, Vernor attempted to sell the copies of Release 14 he purchased from CTA on eBay one at a time.

The first three copies Vernor sold underwent the same DMCA process as the 2005 sale: Autodesk would file a take-down notice; eBay would remove the auction; Vernor would file a counter-notification; Autodesk would not respond; and eBay would reinstate the auction. When Vernor attempted to sell the fourth copy, Autodesk again filed a take-down notice, only this time eBay suspended Vernor’s entire account because of Autodesk’s repeated complaints. Vernor again filed a counter-notification, to which Autodesk did not respond, and he even wrote a letter to Autodesk indicating that he was entitled to sell the copies of AutoCAD. In response to the letter, Autodesk’s attorneys sent a letter to Vernor directing him to stop selling the software. However, because Autodesk failed to respond to Vernor’s counter-notification, eBay reinstated Vernor’s account. At that time, Vernor’s account had been suspended for one month, precluding him from earning any income from selling items on eBay. Vernor filed a declaratory judgment action against Autodesk in the U.S. District Court for the Western District of Washington seeking damages

85. Vernor, 621 F.3d at 1105.
86. Id.
87. Id. at 1105 & n.3.
88. See 17 U.S.C. § 512(g)(3) (2006). The DMCA provides that an individual who is issued a take-down notice may file a counter-notification in which he must include, among other things, “[a] statement under penalty of perjury that [he] has a good faith belief that the material was removed or disabled as a result of mistake or misidentification of the material to be removed or disabled.” Vernor, 621 F.3d at 1105 n.3.
89. Vernor, 621 F.3d at 1105 & n.3.
90. Id. at 1105-06.
91. Id. at 1106.
92. Id.
93. Id.
94. Id.
95. Vernor, 621 F.3d at 1106.
96. Id.
97. Id.
and injunctive relief. Vernor argued that he was entitled to sell the remaining copies of AutoCAD under the first-sale doctrine. Following discovery, the parties filed cross-motions for summary judgment, and the district court held “that Vernor’s sales were non-infringing under the first sale doctrine and the essential step defense.” Autodesk appealed.

B. The Vernor Test

The Ninth Circuit wrestled primarily with the question of whether CTA was the owner of the four copies of AutoCAD for purposes of the first-sale doctrine and essential-step defense. The court held that CTA was not an owner, but rather a mere licensee of the copies of AutoCAD. Consequently, Vernor was likewise not the owner of the copy because CTA, as a licensee, was unable to transfer its license rights to Vernor. In determining that CTA was a licensee and not an owner, the Ninth Circuit promulgated a three-part test to be applied specifically to software users. The Ninth Circuit’s test states that “a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes notable use restrictions.” Relying entirely on the text of the AutoCAD software license agreement attached to the software, the Ninth Circuit found that Autodesk sufficiently met each of the three parts and, as a result, that CTA was not the owner of the four copies it sold to Vernor. Because CTA was not the owner of those copies, it could not transfer ownership to Vernor, as it had no right to do so under the first-sale doctrine. Consequently, because Vernor never received ownership rights from CTA, he likewise could not transfer ownership to his customers on eBay. Thus, the Ninth Circuit vacated the district court’s grant of summary judgment and held that Vernor was not entitled to resell the copies under the first-sale doctrine and that he could not assert the

98. Id.
99. Id.
100. Id.
101. See Vernor, 621 F.3d at 1107.
102. Id. at 1111.
103. Id. at 1112.
104. See id. at 1111.
105. Id.
106. Id.
107. Vernor, 621 F.3d at 1112.
108. Id.
essential-step defense on behalf of his customers. Vernor was therefore prohibited from installing the software.

Soon after deciding Vernor, the Ninth Circuit applied the Vernor test to Apple Inc. v. Psystar Corp., a dispute between corporate giant Apple and a small computer manufacturer. In the Apple case, Apple brought a copyright infringement action because Psystar had installed copies of Apple's proprietary operating system, Mac OS X, onto computers that Psystar manufactured. Apple argued that installing the operating system on non-Apple-manufactured computers was an unauthorized copying in violation of its software license agreement and Apple's copyright. Psystar, on the other hand, argued that it was the owner of its copies of Mac OS X pursuant to the first-sale doctrine because it had purchased retail-packaged copies of the operating system and, consequently, was not in violation of Apple's copyright. The court applied the Vernor test and found that Psystar was not the owner, but rather a licensee pursuant to Apple's software license agreement for Mac OS X.

IV. ANALYSIS

Not all courts agree with the Ninth Circuit's perspective on the issue of ownership of copies of copyrighted works. The Second Circuit, for example, has different tests for determining ownership and for determining when copying intellectual property is considered "copying" under copyright law. The Federal Circuit likewise differs from the Ninth Circuit on the issue of whether a licensee can also be an owner of her copy of a copyrighted work. The Ninth Circuit seems to say that all licensees are, as a matter of law, not owners, whereas the Federal Circuit applies a looser test. A minority of jurisdictions, including

109. Id.
110. Apple Inc. v. Psystar Corp., 658 F.3d 1150, 1152 (9th Cir. 2011).
111. Id. at 1153.
112. Id. at 1153–54.
113. Id. at 1159.
114. Id.
115. See infra notes 118–45 and accompanying text.
116. See infra notes 146–48 and accompanying text.
the District of Utah, view the issue of ownership to be entirely and solely dependent on whether the individual in question has possession of a copy of a copyrighted work.\textsuperscript{117} As a result of these inconsistencies, it is likely that the Supreme Court will need to decide the issue in order to provide uniformity to this area of law.

\section*{A. The Second Circuit's Approach}

The Second Circuit was traditionally the most influential federal appellate court in the arena of copyright law, but has been recently eclipsed by the Ninth Circuit.\textsuperscript{118} Consequently, it is particularly useful to begin the analysis of differences among the appellate courts with a discussion of the Second Circuit's approach. The Second Circuit uses a test it developed in \textit{Krause v. Titleserv, Inc.} to determine whether the possessor of a copy of a copyrighted work is an owner or licensee for purposes of applying the first-sale doctrine or the essential-step defense.\textsuperscript{119} In \textit{Krause}, a dispute arose between an employer, Titleserv, and its employee, William Krause.\textsuperscript{120} Krause was employed as a computer programmer for Titleserv, and he wrote over thirty-five computer programs for the company over the course of his ten-year employment.\textsuperscript{121}

Krause terminated his relationship with Titleserv in 1996.\textsuperscript{122} When he left, Krause indicated that Titleserv was free to continue using his programs in their current state, but that the company had no right to modify his programs' source code.\textsuperscript{123} Unfortunately for Titleserv, in order to accomplish many of the routine functions of the software—like adding a new client, changing the address of an existing client, or fixing common bugs from time to time—Titleserv had to modify the source code.\textsuperscript{124} In order to prevent them from doing so, Krause "locked" the executable code in such a way that Titleserv could not decompile the executable code back into the source code that they needed in order to make the desired changes.\textsuperscript{125} This effectively rendered Krause's programs unusable and unmaintainable for Titleserv

\begin{footnotesize}
\footnote{117. See infra notes 149--57 and accompanying text.}
\footnote{118. See Ford, \textit{supra} note 68, at 41.}
\footnote{119. See Krause v. Titleserv, Inc., 402 F.3d 119, 122--24 (2d Cir. 2005).}
\footnote{120. \textit{id.} at 120--21.}
\footnote{121. \textit{id.} at 120.}
\footnote{122. \textit{id.}}
\footnote{123. \textit{id.} at 121.}
\footnote{124. \textit{id.}}
\footnote{125. \textit{Krause}, 402 F.3d at 120--21. Source code is converted into executable code through a compiler. Executable code can be converted back into source code by means of a decompiler. \textit{Id.}}
\end{footnotesize}
until the company was able to circumvent the lock, access the source code, and subsequently modify the source code. In response to Titleserv’s circumvention of his lock, Krause filed suit for copyright infringement.

The outcome of the case hinged on whether Titleserv was the owner of the copies of Krause’s copyrighted software for purposes of the essential-step defense. The Second Circuit held that Titleserv was the owner of the copies of Krause’s copyrighted works and that modifying the source code was an essential step in the utilization of the programs, thus excusing Titleserv from any liability for copyright infringement. The court further held that in order to determine whether a possessor of a copy of a copyrighted work is an owner of that copy, “courts should inquire into whether the party exercises sufficient incidents of ownership.”

The Second Circuit’s Sufficient- Incidents-of-Ownership Test

The sufficient-incidents-of-ownership test is markedly different from the Ninth Circuit’s Vernor test. The Second Circuit relied on a variety of factors to determine whether Titleserv’s conduct amounted to sufficient incidents of ownership:

Titleserv paid Krause substantial consideration to develop the programs for its sole benefit. Krause customized the software to serve Titleserv’s operations. The copies were stored on a server owned by Titleserv. Krause never reserved the right to repossess the copies used by Titleserv and agreed that Titleserv had the right to continue to possess and use the programs forever, regardless whether its relationship with Krause terminated. Titleserv was similarly free to discard or destroy the copies any time it wished.

The Ninth Circuit’s Vernor test, on the other hand, relies on only three factors, each of which is wholly dependent on the copyright owner’s actions. While the Vernor test places all of its elements under the control of the copyright owner, the Second Circuit’s test is much more broad and malleable, allowing courts some room for discretion.

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126. *Id.*
127. *Id.*
128. See *id.* at 122.
129. *Id.* at 124–26.
130. *Id.* at 124.
132. As mentioned above, the Vernor test indicates “that a software user is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes notable use restrictions.” *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1111 (9th Cir. 2010).
It is true, however, that there is a certain degree of overlap between the two tests. In Krause, the Second Circuit relied on the fact that Krause did not place any limits on the length of time that Titleserv could possess the software, did not prohibit Titleserv from disposing of the software in any way it saw fit, and never reserved the right to repossess the software.133 These three considerations could be interpreted as insufficient to satisfy the Vernor test’s second and third elements, which require that the copyright owner “significantly restrict[ ] the user’s ability to transfer the software” and “impose[ ] notable use restrictions” on the user.134 Accordingly, if the Second Circuit were to apply the Vernor test to the facts of Krause, it would likely have reached the same decision.

However, Krause could have prevailed on the first element of the Vernor test, the requirement that the copyright owner specify that a software user is a licensee rather than an owner.135 Although no facts in Krause indicate that Krause expressly specified Titleserv as a licensee, he may have done so by implication. Krause told Titleserv that they were “free to continue using the executable code as it existed on the day [he] left, but asserted that Titleserv had no right to modify the source code.”136 Similarly, a homeowner who permits a neighbor’s child to play on the homeowner’s yard, while simultaneously prohibiting the child from modifying the yard in any way, may not have expressly indicated that he had granted the child a license, but nevertheless did so by implication.

This does not suggest that Krause would have necessarily prevailed had the Second Circuit applied the Vernor test to his case. As discussed above, Krause would not likely have met the second and third elements of the Vernor test. This does, however, illustrate the danger of the elemental nature of the Vernor test. By developing such a rigid test, the Ninth Circuit has limited itself in a way that the Second Circuit has not. The Ninth Circuit’s test is based entirely on the actions of the copyright owner; specifically, the test contemplates only the terms of use that the copyright owner has imposed on the users of its copyrighted material.137 Alternatively, the Second Circuit’s more flexible sufficient-incidents-of-ownership test allows the court to modify a decision, in its discretion, should it encounter a unique set of

133. Krause, 402 F.3d at 124.
134. Vernor, 621 F.3d at 1111.
135. Id.
136. Krause, 402 F.3d at 121.
137. See Vernor, 621 F.3d. at 1111.
circumstances. In other words, the Second Circuit, unlike the Ninth Circuit, may look beyond the terms set out by the copyright owner to the actual circumstances of the situation.

2. The Second Circuit’s Approach to “Copying” Under the Copyright Act

Apart from the rule regarding ownership of a copy of copyrighted material, the Second Circuit also differs from the Ninth regarding the definition of “copying” for purposes of the essential-step defense. The Second Circuit takes issue with the Ninth Circuit’s determination “that the loading of software into [a computer’s] RAM creates a copy under the Copyright Act.” Although the Ninth Circuit in MAI Systems never expressly stated that copying software into RAM was necessarily copying under the Copyright Act, subsequent cases have supported such an interpretation. However, in Cartoon Network LP v. CSC Holdings, Inc., the Second Circuit “construe[d] MAI Systems and its progeny as holding that loading a program into a computer’s RAM can result in copying that program.” The court went on to say that it “[did] not read MAI Systems as holding that, as a matter of law, loading a program into a form of RAM always results in copying.”

Much like the above comparison between the sufficient-incidents-of-ownership test and the Vernor test, the Ninth Circuit again applies a strict, elemental rule to an issue the Second Circuit views as best handled through discretion. In Cartoon Network, the Second Circuit held that, at least in the specific set of circumstances, copying a television program to a digital video recording device’s RAM did not constitute copying under the Copyright Act because the data did not remain “for a period of more than transitory duration.” Rather, “each bit of data . . . [was] rapidly and automatically overwritten as soon as it [was] processed.” Had the Second Circuit applied the Ninth Circuit’s more rigid and inflexible rule—that copying informa-

138. See Krause, 402 F.3d at 124.
139. MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 519 (9th Cir. 1993).
140. See, e.g., Wall Data Inc. v. L.A. Cnty. Sheriff’s Dep’t, 447 F.3d 769, 785–86 (9th Cir. 2006) (holding that the defendant was licensed to run the plaintiff’s program from RAM, but not licensed to copy the entirety of the program onto its computers’ hard drives because the latter was not an essential step); Triad Sys. Corp. v. Se. Express Co., 64 F.3d 1330, 1335 (9th Cir. 1995) (holding that the defendant’s copying of the plaintiff’s program into RAM constituted copying under the Copyright Act).
141. Cartoon Network LP v. CSC Holdings, Inc., 536 F.3d 121, 128 (2d Cir. 2008).
142. Id.
143. Id. at 129–30.
144. Id. at 130.
tion to a computer’s RAM is always copying for purposes of the Copyright Act—the opposite outcome would have occurred.\textsuperscript{145}

**B. The Federal Circuit’s Approach**

The Ninth Circuit’s decision in \textit{MAI Systems} stands for the idea that a licensee is inherently a nonowner.\textsuperscript{146} This dichotomy—that a party must be either an owner or a licensee—is solidified in the Ninth Circuit’s \textit{Vernor} test, as it always must result in a finding of either an owner or a licensee.\textsuperscript{147} The Federal Circuit, on the other hand, disagrees with this approach. Instead, the Federal Circuit holds that “a party who purchases copies of software from the copyright owner can hold a license under a copyright while still being an ‘owner’ of a copy of the copyrighted software for purposes of [the essential-step defense].”\textsuperscript{148} Like the Second Circuit, the Federal Circuit allows for flexibility in its rule, permitting the court to exercise discretion when proper.

**C. The District of Utah’s Approach**

The danger of a court limiting itself to absolute rules is illustrated well by the U.S. District Court for the District of Utah’s decision in \textit{Novell, Inc. v. Network Trade Center, Inc.}\textsuperscript{149} As a district court sitting within the Tenth Circuit, it is not bound by the Ninth Circuit’s precedent. In \textit{Novell}, the District of Utah held that the purchaser of software was “an ‘owner’ by way of sale and entitled to the use and enjoyment of the software with the same rights as exist in the purchase of any other good.”\textsuperscript{150} The court added “that software users generally purchase the software through a retailer and consider the transaction as complete once the exchange of the software package is made at the register for the money.”\textsuperscript{151} Consequently, the court reasoned that it would be unfair to bind the purchaser to additional terms of use in the form of a software license agreement if the purchaser had not originally bargained for such restrictions.\textsuperscript{152} This necessarily suggests that any possessor—or at least any purchaser—of software has

\begin{itemize}
\item \textsuperscript{145} MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 519 (9th Cir. 1993).
\item \textsuperscript{146} \textit{Id.} at 518 n.5 (“Since MAI licensed its software, the Peak customers do not qualify as ‘owners’ of the software and are not eligible for protection under [the essential-step defense].”).
\item \textsuperscript{147} \textit{See Vernor v. Autodesk, Inc.}, 621 F.3d 1102, 1111 (9th Cir. 2010).
\item \textsuperscript{148} DSC Commc’ns Corp. v. Pulse Commc’ns, Inc., 170 F.3d 1354, 1360 (Fed. Cir. 1999).
\item \textsuperscript{149} \textit{Novell, Inc. v. Network Trade Ctr., Inc.}, 25 F. Supp. 2d 1218 (D. Utah 1997).
\item \textsuperscript{150} \textit{Id.} at 1230.
\item \textsuperscript{151} \textit{Id.} at 1230 n.17.
\item \textsuperscript{152} \textit{See id.}
\end{itemize}
full ownership rights regardless of the terms of the software license agreement.

As a result, copyright owners in the District of Utah are completely disenfranchised of their ability to restrict a user's exercise of the first-sale doctrine and the essential-step defense. Because a purchaser is always an owner in the District of Utah, it necessarily follows that any purchaser will always be able to both transfer her copy of the copyrighted work and make a copy of that work, if making the copy is "an essential step in the utilization of the computer program."153 This is particularly problematic in the context of computer software simply due to how it is utilized by consumers. For example, a consumer may purchase a copy of a software program on a compact disc. In the District of Utah, this consumer becomes an owner of that copy by virtue of his purchase and possession.154 The owner is permitted to copy the information from the compact disc onto the hard drive of his computer because making that copy is an essential step in the utilization of the program.155 At that point, the consumer would be in possession of two copies of the program, and consequently, the consumer would also be an owner of both copies. As an owner of both copies, the consumer is free to sell the copy on the compact disc to a friend pursuant to the first-sale doctrine.156 Pursuant to that transfer, the friend would acquire all of the ownership rights that the original consumer enjoyed.157 Thus, the friend would be free to make a copy by installing it onto his computer—just as the original consumer had done—and then sell the copy stored on the compact disc to yet another friend. The danger is that a consumer could make copies of a copyrighted work and then distribute them freely without ever committing copyright infringement under the Copyright Act, making copyright protections for creators of original works inconsequential.

D. The Danger of a Nondiscretionary Rule

The District of Utah's strict application of a nondiscretionary rule is dangerous because it allows a consumer to circumvent the Copyright Act's protections against piracy. The Ninth Circuit's Vernor test, sit-

153. See 17 U.S.C. § 117(a)(1) (2006) (providing that an "owner" of a copy of a copyrighted work always has the right to make a copy of her copy if making that copy is an essential step in the utilization of the copyrighted work); id. § 109(a) (providing that an "owner" of a copy of a copyrighted work has the right to resell that copy, without consent from the copyright owner, after making the first purchase).
156. See id. § 109(a).
157. See id.
ting on the other end of the spectrum, is similarly dangerous. Whereas the District of Utah’s approach undermines a copyright owner’s protections against piracy, the Ninth Circuit’s approach emphatically requires strict enforcement of software license agreements.\textsuperscript{158} As discussed above, the rigid nature of the Vernor test makes it very difficult for a possessor of a copy of a copyrighted work to claim ownership over that copy. The reason for this difficulty lies in the fact that the Ninth Circuit must grant broad deference to the terms of the license agreement that the copyright owner attached to the software.\textsuperscript{159} Under the Vernor test, each of the three elements is entirely dependent on the copyright owner’s discretion. Put another way, the copyright owner may unilaterally craft the software license agreement in such a way that the court must necessarily come to the determination that the possessor is a licensee and not an owner. For example, a copyright owner may include a term indicating that the consumer’s license to use the software is revoked thirty days after purchase unless the consumer pays an additional fee. The impact of this hypothetical term, or any similar term, is unsettling.

Due to the rigid nature of the Vernor test, the Ninth Circuit would be bound to enforce such a term because a licensee’s rights to use the software are entirely dependent on the terms of the license that the copyright owner granted to that licensee. Because the Vernor test is limited to three nondiscretionary prongs, when unique circumstances arise—for example, when a copyright owner drafts an abusive term in a license agreement—the Ninth Circuit will have little flexibility to employ its own discretion. Thus, the consumer could potentially be bound by an extortive license agreement; after all, his ownership rights to the copy are wholly dependent on the terms of the license agreement that the copyright owner has drafted. In short, neither the District of Utah’s approach nor the Ninth Circuit’s approach is desirable because each one represents an extreme on either side of a broad spectrum.

\textbf{E. The Supreme Court and a More Balanced Approach}

If the Supreme Court addresses the problem of ownership of intellectual property, it should disregard the two extreme approaches outlined above.\textsuperscript{160} Instead, the Court should employ a more flexible

\textsuperscript{158} See Vernor v. Autodesk, Inc., 621 F.3d 1102, 1111 (9th Cir. 2010).
\textsuperscript{159} See id. 1111-12.
\textsuperscript{160} The Supreme Court will not, however, be deciding this issue in the context of the Vernor case because it denied Timothy Vernor’s petition for certiorari on October 3, 2011. Vernor v. Autodesk, Inc., 132 S. Ct. 105 (2011). Nevertheless, the Supreme Court will have to address the
standard such as the ones employed by the Second or Federal Circuits. The Court should reach this decision by balancing the countervailing interests of the software industry and the software consumer. The software industry has a strong interest in protecting against piracy, and as such, the District of Utah's approach would be undesirable. Conversely, the consumer has a strong interest in getting what she bargains for and likewise must be protected against predatory agreements that may bind her at the time of purchase, regardless of whether she expressly agrees to the terms. Thus, the Ninth Circuit's *Vernor* test is undesirable for protecting the interests of consumers.

The Second Circuit's sufficient-incidents-of-ownership test is a happy medium between these two extremes. As applied in the *Krause* case, the sufficient-incidents-of-ownership test permits the copyright owner to impose reasonable restrictions on the use of its copyrighted work while simultaneously providing a check on the extent of those restrictions. The check is found in the relatively discretionary nature of the test; it requires only that the possessor "exercise... sufficient incidents of ownership over a copy of the program to be sensibly considered the owner of the copy." As a result, the Second Circuit's test serves both of the countervailing interests that the Supreme Court would have to protect. It does so by permitting the decision maker substantial discretion in determining when a purchaser is an "owner" of a copy of a copyrighted work under the Copyright Act. This discretion simultaneously protects the software industry from piracy and protects consumers from abusive practices by allowing the decision maker the freedom to dismiss potentially abusive license terms drafted by the software industry.

Nevertheless, as the Ninth Circuit is one of the most influential jurisdictions in the field of intellectual property law, the Supreme Court may likely find it persuasive. If the Supreme Court does adopt the Ninth Circuit's decision in *Vernor*, several undesirable consequences would result.

V. IMPACT

Three categories of undesirable consequences would likely arise if the Supreme Court were to adopt the Ninth Circuit's *Vernor* test. issue eventually due to the inconsistent rules that are present among the federal circuits. See supra notes 118–57 and accompanying text.

162. Id.
163. Id.
First, the rights of consumers would likely be contracted.\(^{164}\) Second, courts could easily apply the Vernor test to other forms of intellectual property despite its specific application to computer software.\(^{165}\) Lastly, the contraction of consumers’ ownership rights, combined with the likely expansion of the Vernor test, could create a potential for consumer backlash, particularly against the software industry.\(^{166}\)

A. The Contraction of Consumers’ Ownership Rights

As consumers are increasingly held to be licensees of the products that they buy rather than owners of those products, their fundamental property right of alienation is reduced. This result is precisely what the Supreme Court intended to prevent when it created the first-sale doctrine at the turn of twentieth century. The first-sale doctrine was created in order to strike a balance between the intellectual property rights of the copyright owner and the fundamental property rights of the consumer.\(^{167}\) Vernor tips this delicate balance in favor of copyright owners, and the unintended results may be far-reaching and significant.

Particularly, the restriction on consumers’ right to alienate their property will have its biggest effect on secondary markets for copyrighted works. These markets include everything from the more traditional used-book stores to the more modern arena of online auction sites such as eBay.com or uBid.com. In its amicus brief filed on behalf of Mr. Vernor, eBay expressed concerns that a contraction of the first-sale doctrine would have a chilling effect on these secondary markets.\(^{168}\)

Secondary markets serve two important functions for consumers.\(^{169}\) First, they expand consumers’ opportunity to purchase copies of copyrighted works, often at a lower price, because they need not purchase them directly from the copyright owner.\(^{170}\) Second, the availability of a secondary market decreases the cost of new copies of a copyrighted work.\(^{171}\)

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164. See infra notes 167–84 and accompanying text.
165. See infra notes 185–93 and accompanying text.
166. See infra notes 194–202 and accompanying text.
167. See Brilliance Audio, Inc. v. Haight Cross Commc’ns, Inc., 474 F.3d 365, 374 (6th Cir. 2007) (“The first sale doctrine ensures that the copyright monopoly does not intrude on the personal property rights of the individual owner, given that the law generally disfavors restraints of trade and restraints on alienation.”).
168. See Brief of Amicus Curiae eBay Inc. in Support of Appellee at 2–3, Vernor v. Autodesk, Inc., 621 F.3d 1102 (9th Cir. 2010) (No. 09-35969), 2010 WL 894741 [hereinafter Brief of eBay Inc.].
169. Id. at 7; see also R. Anthony Reese, The First Sale Doctrine in the Era of Digital Networks, 44 B.C. L. Rev. 577, 578 (2003).
170. Brief of eBay Inc., supra note 168, at 7; Reese, supra note 169, at 586.
work in the long run because the initial purchaser may recoup the cost of a new copy by reselling it to a new consumer and thereby increases the likelihood that the new copies will be purchased.\textsuperscript{171} As a result, secondary markets facilitate economic efficiency in distributing copyrighted works, resulting in a wider range of consumers having access to those copyrighted works than would otherwise be possible.\textsuperscript{172}

Furthermore, secondary markets increase the longevity of a copyrighted work because the original producer need not perpetually manufacture it in order for any given consumer to have access to it.\textsuperscript{173} After all, if a vibrant secondary market exists, any modern consumer can legitimately purchase from a vast library of intellectual property works because of broad access to the Internet and the ease of communication that it creates.\textsuperscript{174}

In short, "secondary markets create important opportunities."\textsuperscript{175} Particularly during difficult economic times, secondary markets (by virtue of the first-sale doctrine) grant the typical consumer broader access to intellectual property works than would otherwise be available.\textsuperscript{176} This promotes two important public interests. First, broad access to intellectual property increases access to a variety of information and ideas. This interest, while intangible, is nevertheless essential to the existence of a healthy democracy. In order to have a thoughtful and engaged citizenry, the State ought to facilitate access to knowledge and information. This fundamental interest—the existence of a public domain and the public's access to it—is one that the Copyright Act intended to protect.\textsuperscript{177}

\textsuperscript{172} See Brief of eBay Inc., supra note 168, at 7–8; see also Nancy S. Kim, The Software Licensing Dilemma, 2008 BYU L. Rev. 1103, 1161.
\textsuperscript{173} Brief of eBay, Inc., supra note 168, at 9; Reese, supra note 169, at 592.
\textsuperscript{174} See Brief of eBay Inc., supra note 168, at 9 ("Together, the first sale doctrine and secondary markets expand the window during which copies [of copyrighted works] circulate publicly, contributing to the preservation and survival of works over time." (internal quotation marks omitted)).
\textsuperscript{175} See id.
\textsuperscript{176} Id.
\textsuperscript{177} PHILIP S. ASHLEY, AN INTRODUCTION TO THE LAW OF REAL AND INTELLECTUAL PROPERTY 627 (2010).

Congress believed that granting a temporary monopoly to authors and inventors would stimulate a higher level of creative output, innovation and ingenuity than would otherwise occur, and that the public would ultimately be the beneficiaries; because during the monopoly period the public could enjoy the work by paying for it, and after the expiration of the copyright or patent, these works would pass into the public domain where they could then be freely exploited forever.

\textit{Id.}
The Constitution grants Congress the power "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."178 This speaks to the second important public interest protected by the first-sale doctrine: the promotion of entrepreneurship and innovation.179 A robust secondary market creates opportunities for entrepreneurs to create businesses, such as used-book stores, thrift stores, and used-record stores, thereby expanding the economy.180 Secondary markets also indirectly help to expand the economy. Existing small businesses that do not have vast stores of capital to invest in the newest software for their businesses can still purchase the less expensive secondhand software that, while perhaps outdated, nevertheless helps these small businesses become more efficient and competitive.181

Libraries are likewise at significant risk by a contraction of the first-sale doctrine because they regularly partake in the practice of lending and distributing copyrighted works. Libraries deserve special mention in a discussion of the benefits of a secondary market, as they occupy a unique position in the public conscience as bastions of free information and proponents of the proliferation of knowledge. The American Library Association (ALA) also filed amicus briefs on behalf of Mr. Vernor.182 In its brief, the ALA emphasized the "two lives" of a given copyrighted work: "After their in-print lives end, it is libraries, archives...and [other] second-hand markets that continue to make these titles available and accessible."183 After all, "it is difficult to conceptualize the lifecycle of most copyrighted works without imagining copies being lent, resold, or gifted. Without a robust first sale doctrine, however, each of these activities would be imperiled by a copyright owner's distribution right."184

In short, the existence of robust secondary markets promotes both greater economic efficiency and the broader dissemination of knowledge. When the first-sale doctrine is contracted, it threatens secondary markets and the benefits they provide because it restricts consumers' right to alienate their property. Without the alienation

180. See id.
181. See id. at 7–10.
183. Id. at 9.
184. Id. at 7–8.
rights that the first-sale doctrine ensures, secondary markets could become a thing of the past.

B. Application of the Vernor Test to Other Forms of Copyrighted Intellectual Property

Another likely outcome of the Ninth Circuit’s approach to ownership of copies of copyrighted works is the application of the Vernor test to other forms of intellectual property. While the Vernor test applies explicitly to software, it could be difficult for courts to confine its application to intellectual property only in that form, particularly because other media is increasingly digitized and distributed over the Internet. Examples of this include music from popular services such as iTunes or Rhapsody, and e-books from Barnes & Noble and Amazon.com. If the Vernor test is applied beyond the realm of computer software, “[t]omorrow’s vendors of digital music, movies, and e-books could use ‘license agreements’ to impose whatever post-sale use and transfer restrictions might suit their fancy, secure in the knowledge that they could pursue copyright infringement remedies against any transgressors.”

While the Vernor test could most easily be applied to other media in digital form, the rule is not, ultimately, confined to the digital arena. In fact, there is nothing preventing courts from applying the rule to physical media like paper books, DVD copies of films, or CDs containing music. The ALA, in its amicus brief on behalf of Mr. Vernor, noted this concern. It argued that the Vernor test requires nothing more from copyright owners than the invocation of a few “magic words” in contractual “license agreements” in order to evade the first-sale doctrine. Once they do, “there is no limiting principle that would prevent other copyright owners from employing the same trick on books, CDs, DVDs, and other media.”

If such an application of the Vernor test occurred, the first-sale doctrine would deteriorate into a shell of its former self. Consider the facts of the seminal first-sale doctrine case, Bobbs-Merrill Co. v. Straus. If the Vernor test had applied to the Bobbs-Merrill context,

185. Vernor, 621 F.3d at 1111.
186. For example, Amazon.com’s Kindle e-book reader allows access to over one million digital copies of books, in addition to several newspapers and magazines, and over two million out-of-copyright, pre-1923 books.
187. Brief of ALA, supra note 182, at 22.
188. See id. at 3–4.
189. Id. at 3.
190. Id.
191. See supra notes 29–36 and accompanying text.
it would have likely resulted in a determination in favor of the copyright owner. In *Bobbs-Merrill*, the copyright owner printed the following text in the book: "The price of this book at retail is $1 net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright." This "license" satisfies all three elements of the *Vernor* test: the copyright owner specified that the user is granted a license (by calling it the same); significantly restricted the user's ability to transfer the software (by limiting the price of the book); and imposed notable use restrictions on the user. Consequently, if *Bobbs-Merrill* were decided today in a *Vernor* jurisdiction, the opposite outcome would likely result.

The danger, of course, is that all intellectual property would eventually become inalienable. In a worst-case scenario, every used-book store would close down, libraries would be facing constant copyright infringement lawsuits, and, if one wanted to lend a copy of a good book to a friend, either they would need to get express permission from the copyright owner or the friend would have to purchase her own book. Students at all levels of academia would be prohibited from purchasing lower cost, used textbooks and likewise would be unable to sell the books back to the university bookstore once the semester was over, further stretching a student's already limited budget. While this doomsday scenario seems entirely unappetizing, the simple truth is that the *Vernor* test could allow exactly that. The broad deference granted to the copyright owner and his license agreements by the *Vernor* test is in contravention to the first-sale doctrine and the necessary limits of a copyright owner's powers promoted in *Bobbs-Merrill*.

C. The Consumer Backlash

The contraction of consumer rights of alienability and the application of the *Vernor* test to media beyond computer software would likely result in a consumer backlash against the producers and retailers of such restricted media. The consumer's power in a capitalist economic model lies in their ability to vote with their wallets; if something is unappealing they can simply choose not to buy it.

There already exists today a large library of free software that grew out of the work of independent computer programmers and academics in a movement that promotes "open-source" software. These programs perform many of the same functions as their expensive,
commercial counterparts. Some open-source programs have become the standard over their professionally made, restricted equivalents. In Europe, for example, the popular open-source Internet browser Mozilla Firefox has recently overtaken Microsoft’s Internet Explorer as the most popular web browser. In the United States, Internet Explorer still enjoys a majority of the market share, but that popularity has been steadily declining since at least 2008. The open-source movement has been growing steadily, and this is likely to continue to expand in the face of the Vernor decision.

Unlike their commercial counterparts, open-source programs are subject only to general public licenses. These licenses reduce restrictions on the transferability and modification of software rather than expanding those restrictions like the more-common software license agreements drafted by software developers. The Open Source Initiative promulgates a list of ten recommended criteria for such licenses. It recommends, among other provisions, granting license to freely redistribute the software, to leave the source code open for others to view and edit, and to permit the creation of derivative works.

As demonstrated by the success of the web browser Mozilla Firefox, open-source programs are certainly capable of encroaching on the market share of their commercial counterparts. If the courts continue to constrict the rights of consumers and extend the Vernor test to other media, consumers will likely turn to open-source alternatives to satisfy their needs. This would create a serious problem for the software industry because they would, ironically, drive their customers into the waiting arms of their competitors while attempting to protect the integrity of their business. They are in danger of pulling the proverbial rug out from underneath themselves.

195. For example, Open Office is one alternative to Microsoft’s popular Microsoft Office suite of programs. See Why OpenOffice.org, OPENOFFICE.ORG, http://why.openoffice.org (last visited Jan. 28, 2011).
198. Id.
200. Id.
201. Id.
202. Id.
VI. Conclusion

The Vernor decision is a sudden lurch in the long history of the development of copyright law. The first-sale doctrine and the essential-step defense were created by the judiciary and Congress to protect the interests of consumers while curbing the potentially limitless power granted to copyright owners. With its decision in Vernor, the Ninth Circuit threatens over one hundred years of precedent restricting the otherwise limitless power of copyright owners. The Ninth Circuit’s influence on issues of intellectual property now places the entire nation under the same threat. The Supreme Court should review the Vernor test in order to make the law of the nation more consistent.

The Supreme Court must balance the interests of consumers against the interests of producers of the intellectual property when it addresses the important issue of what it means to be the owner of a copy of a copyrighted work. The Court should not be persuaded by the Ninth Circuit’s nondiscernionary Vernor test. Likewise, the Court should not be persuaded by jurisdictions like the District of Utah that apply a similarly absolute approach granting blind deference to the software consumer. Rather, the Supreme Court ought to look to the flexible rule promulgated by the Second Circuit. The Second Circuit’s rule is not so rigid as to disenfranchise software consumers from their property rights, but it is clear and predictable enough to protect the producers of software from the real economic problems of piracy and prohibited reproduction.

Adopting the Ninth Circuit’s rigid approach would have three detrimental effects on the country and its citizenry: consumers’ alienability rights would be threatened; the rigid Vernor test would likely be extended to forms of intellectual property other than computer software; and combination of the two effects above would cause a backlash from the consumer.

All in all, the Supreme Court should adopt something similar to the Second and Federal Circuits’ approaches to the question of ownership of digital media because they provide a more balanced alternative to the Ninth Circuit’s Vernor test. A test that permits a balancing between the interests of the software-producing industry and the software-consuming citizenry is preferable to a test that absolutely collapses on the side of one or the other.

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